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The Relationship between Economic Freedom and Socio-Economic Development

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Oral Presentation O1.2

**THE RELATIONSHIP BETWEEN ECONOMIC FREEDOM AND
SOCIO - ECONOMIC DEVELOPMENT**

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The concept of economic freedom is not a novel one in economic theory. Since the time of Adam Smith if not before, economists have believed that freedom to choose and supply resources, compete in business, trade with others, and secure property rights are central ingredients of economic progress. Adam Smith (1776-1937) explained how the invisible hand of the marketplace enhanced the wealth of nations. David Ricardo (1821-1912) advocated free trade as a means of producing economic growth. Milton Friedman said, "I believe that free societies have arisen and persisted only because economic freedom is so much more productive economically than other methods controlling economic activity".

Economic freedom has been linked to economic growth. It is a basis for determining why some countries perform better than others since it precedes and causes economic growth. However, merely studying the relationship between economic freedom and economic growth rates is not enough. Whether these benefits and "increased economic growth rates" translate into something real and make a significant contribution to socio-economic welfare of people is a matter of critical concern.

The aim of this paper is to determine if increased economic freedom leads to improvement in the quality of life. Indeed, if it does so then this paper will formulate an index of economic freedom and also examine which aspects of economic freedom most impact the quality of life. It will also be determined whether the pace of change in freedom matters. The empirical model uses an index to measure economic freedom. Socio-economic development is reflected in two indices: the human development index and the Gini coefficient, measuring life expectancy, education, standard of living and income inequality.

The results are conclusive; economic freedom is positively related to improvement in the quality of life. Policy implications from this research highlight the need for governments to formulate policies that increase economic growth and improve the quality of people's life. Socio-economic development is too critical to be ignored.